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SUBJECT: PANAMA: TORRIJOS AGENDA CONTINUES AFTER

CONSTITUTIONAL REFORM

REF: A. PANAMA 01963

[B.](#) PANAMA 01883

[C.](#) PANAMA 02613

SUMMARY: PUSHING THE AGENDA THROUGH

[¶1.](#) (SBU) President Martin Torrijos and his Democratic Revolutionary Party (PRD) are trying to make the most of their honeymoon period. Less than 100 days into its five-year term, the new administration has accomplished one of its top domestic priorities by pushing through a constitutional reform package (reftel A) that became official on November 15, 2004. With constitutional reform now out of the way, the legislature's PRD leadership wants to focus on tax reform (before the March 2005 deadline for tax payment), reforming Panama's social security system (CSS), and preparing a Canal expansion referendum, but opponents may well have other plans. Bad blood over tough but necessary domestic reforms may burn PRD political capital well before the legislature must review ratifying a possible US-Panama bilateral Free Trade Agreement (FTA); however, the President of Panama's legislature, Jerry Wilson, has indicated no doubt about lawmakers' ability to pass such an agreement. END SUMMARY.

TAX REFORM, CSS, AND THE CANAL BEFORE FTA

[¶2.](#) (SBU) While tax reform and Social Security Fund (CSS) reform will be politically unpopular, lawmakers (including National Assembly President Jerry Wilson) insist that inevitable friction will not impair their ability to secure approval of a Canal expansion referendum (their top strategic priority), or ratify a possible US-Panama FTA when the time comes. To "get them out of the way," tax reform and reforming Panama's ailing Social Security Fund (CSS) top the Torrijos administration's immediate domestic agenda, followed by Canal expansion. All have strong short-term downsides with Panamanian voters despite positive medium-to-long-term impacts. With the service tax (ITBMS) that President Moscoso imposed in late 2002 fresh in their minds, Panamanians want nothing to do with tax reform if it means they will pay more taxes. CSS reform will likely reduce benefits and Canal expansion threatens to displace numerous small farmers from the canal watershed, both easy targets for PRD opponents seeking political advantage in 2009.

[¶3.](#) (SBU) During the campaign, President Torrijos promised to repeal the unpopular service tax (ITBMS) that President Moscoso implemented in December 2002, but his administration appears to have dropped the idea. According to Florencia Rios Serracin, Torrijos' Director of Revenue, the Moscoso administration was collecting the tax incorrectly, and lost revenue. Accounting studies by the Ministry of Economy and Finance have shown the Torrijos Administration the tax potentially can generate much more revenue. Given the constitutional mandate that eliminating one tax must be accompanied by the establishment of an equivalent tax, it appears that President Torrijos won't live up to this campaign promise.

[¶4.](#) (SBU) Necessary belt tightening at the Social Security Fund (CSS) (which National Assembly President Jerry Wilson told POL Counselor is on the agenda for this December) will allow PRD opponents to paint the Torrijos administration as hard on the poor. PRD leaders have expressed concerns to EmbOffs that the Arnulfistas in particular would oppose CSS reforms for short-term political mileage instead of considering the undeniable need for reform. (COMMENT: PRD and Arnulfista roles in the CSS saga have reversed since the Moscoso administration (1999-2004), but both parties share historical responsibility for the institution's problems. Arnulfista Party namesake Arnulfo Arias created the CSS as a paternalistic entitlement. The CSS's actuarial woes and bloated roll of beneficiaries are well-known problems that no Panamanian government has fully addressed since Martin

Torrijos's father Omar created them during the 1970s. See reftel B for a discussion of CSS problems. END COMMENT.)

15. (SBU) The constitutional reform package mandates a referendum on Canal expansion (which Assembly President Jerry Wilson told POL Counselor will come in late 2005), but even PRD legislators on the Canal Affairs Committee don't know what it will look like. PRD leaders and independent analysts have speculated that the referendum will be very simple (a yes-or-no question such as, "Do you think the Panama Canal should be expanded?") to avoid locking the Torrijos administration into specific engineering or financing plans. Contacts in the Electoral Tribunal have confirmed to Embassy that they are planning for a 2005 Canal referendum, but they do not know the date. (COMMENT: As with other items on the Torrijos administration's agenda, PRD legislators may be the last to know what the canal referendum they need to approve will look like. END COMMENT.)

COMMENT: HONEYMOON WILL END

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16. (SBU) President Torrijos already has accomplished important reforms and seeks to pursue several others (see for example a summary of the anti-corruption initiatives in reftel C), but the Panamanian "what have you done for me lately?" attitude will catch up with him and his allies. Torrijos's tight-lipped management style may generate problems for him with PRD congressmen (now called "diputados" under the new constitution instead of legisladores). Executive-driven initiatives with little buy-in from PRD legislators (much less those from the opposition) may deplete the political capital that Torrijos will need to conserve as he tries to press forward with an ambitious agenda.

17. (SBU) During recent encounters with PRD congressmen, EmbOffs have noted their frustration at being left out of the loop on important decisions. Several remarked that having no funds to spend in their districts makes it nearly impossible for them to meet the paternalistic expectations of their constituents. The congressman who drew the most votes in the May 2004 election put it best when he said, "I have to go home every night and explain to the thirty-eight thousand voters who elected me why I haven't been able to live up to what I promised during the campaign." This remark reflects a widespread perception that despite a strong electoral mandate, Torrijos is working in an atmosphere of high expectations and in a political culture characterized by impatience and patronage.

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